

Enhancing the Capacity of National Public Financial Institutions to Finance Private Sector Climate Change Mitigation Projects in Energy

I. Basic project data

▪ Country/Region:	Regional Project
▪ TC Name:	“Enhancing the Capacity of National Public Financial Institutions to Finance Private Sector Climate Change Mitigation Projects in Energy”
▪ TC Number:	RG-T2335
▪ Team Leader/Members:	Jose Juan Gomes Lorenzo (IFD/CMF), Team Leader; Maria Netto (IFD/CMF), Alternate Team Leader; Tyler Chapman (IFD/CMF); Erin Compton (IFD/CMF); Isabelle Braly-Cartillier (IFD/CMF); Jose Ramon Gomes (CCO/CMF).
▪ Indicate if: Operational Support, Client Support, or Research & Dissemination.	Client Support (Capacity development)
▪ If Operational Support TC, give number and name of Operation Supported by the TC:	Not applicable
▪ Reference to Request ¹ :	A first letter of request has been received from BANDESAL IDB docs #38337882.
▪ Date of TC Abstract:	05/02/2014
▪ Beneficiary (countries or entities which are the recipient of the technical assistance):	National Development Banks and development Agencies of the Region
▪ Executing Agency and contact name (Organization or entity responsible for executing the TC Program) {If Bank: Contracting entity} {If the same as Beneficiary, please indicate}	IDB – IFD/CMF
▪ IDB Funding Requested:	USD 460,000 from the Sustainable Energy and Climate Change Initiative (SECCI)
▪ Local counterpart funding, if any:	Counterpart resources would be equivalent to 20% (USD 88,000) and will be provided in kind in the form of logistical and staff support of beneficiary entities
▪ Disbursement period (which includes execution period):	36 months (30 months of execution)
▪ Required start date:	07/01/2013
▪ Types of consultants (firm or individual consultants):	Both firms and individuals
▪ Prepared by Unit:	IFD/CMF
▪ Unit of Disbursement Responsibility:	IFD/CMF
▪ Included in Country Strategy (y/n);	Y
▪ TC included in CPD (y/n):	N
▪ GCI-9 Sector Priority:	The proposed TC is closely related to two institutional priorities of the IDB under the GCI-9. They are: i) Institutions for growth / social welfare; and ii) Protecting the Environment and Responding to Climate Change.

¹ A first letter of request from an interested financial institution (BANDESAL from El Salvador) has already been received.

II. Objective and justification

The goal of this project is to promote private-sector investment in clean energy. Its specific objective is to strengthen the institutional capacities of National Development Banks (NDBs) and development agencies (DAs), in designing and implementing effective financing strategies to support private sector investments in energy efficiency (EE) and renewable energy (RE) technologies. This TC will target countries confronting high electricity prices, high energy imports, and underinvestment in energy-saving technologies by the private sector.

Electricity is a substantial cost for many countries in LAC. Countries in Central America and the Caribbean are highly dependent on fossil-fuel power sources, with its concomitant adverse impact on their fiscal and current accounts and on their economy as a whole. In Jamaica and Bahamas, for instance, where most of the electricity is generated through fossil-fuel power plants, electricity prices are very high and sensitive to shocks in international oil prices. According to Bloomberg New Energy Finance, electricity prices in those countries could exceed \$0.40/kWh.

Many countries in the region have the opportunity to increase the adoption of EE and RE technologies. However, private sector investments have not taken place at the necessary pace. An analysis of energy investments in the region² shows that one important factor preventing those investments is that financial markets often do not internalize the risks associated to RE and EE technologies nor integrate their potential benefits in the credit lines that they offer to firms, in particular to SMEs.

Public sector financial institutions, particularly NDBs or publicly-backed DAs, could play a catalytic role in supporting a better engagement and involvement of local financial institutions in the financing of this type of projects. Indeed, through awareness campaigns, capacity-building efforts and the provision of long-term funding, guarantees and insurance products, those public sector entities could support local financial institutions in offering financing for this type of investment projects at adequate terms and conditions, while reducing their exposure to perceived or real risks. However, to assume such a catalytic role, NDBs or DAs need first to strengthen their knowledge on the risks and returns of these projects, become aware of similar efforts being implemented by other public sector financial institutions in the Region, build-up their internal capacities, and start to work on their own solutions with the necessary technical support under a learning-by-doing approach.

A number of NDBs of the region are already piloting financing strategies to promote scaled up investments in RE and EE measures (such as BNDES in Brazil; NAFIN, FIRA and SHF in Mexico; Bancoldex and Findeter in Colombia; and COFIDE in Peru). The best practices that have been gathered through these particular experiences will certainly benefit other public sector financial institutions of the Region (such as BANDESAL in El Salvador, BROU in Uruguay and CFN in Ecuador) that have already expressed their interest to the IDB in receiving support to strengthen their institutional capacities in this area and become more proactive players in addressing the energy and environmental challenges of their respective countries.

The proposed TC addresses two different institutional priorities of the IDB under the GCI-9. First, it backs the priority associated with Institutions for Growth and Social Welfare to the extent that it strengthens credit institutions so that they, in turn, are able to promote sustainable private sector growth and development in their respective local financial markets. Secondly, it supports the priority of Protecting the Environment and Responding to Climate Change to the extent that NDBs, DAs and SPVs promote climate change and environmental considerations within their client base.

² FOMIN, [ClimateScope 2012](#)

The proposed program is not intended to support the preparation or execution of loan operations of the Bank with any public sector financial vehicle, including NDBs. However, it is expected that through this client support-type of TC, beneficiary public sector financial vehicles will start to build a long-term relationship with the Bank that will translate not only into rich policy dialogues and institutional strengthening in environmental and climate change financing issues, but also into potential dedicated funding lines that would address some of those issues.

The client support contemplated under this TC will be provided upon demand. In this regard, due to the promotion and dissemination of this initiative through regional events on the subject that have been and are being organized with the Association of Development Financing Institutions of Latin America and the Caribbean (ALIDE), several public sector financial vehicles of countries of the Region have expressed their interest in working with the Bank in improving the financing for energy efficiency and renewable energy investment projects, particularly those of small- and medium-sized firms (SMEs).

III. Description of activities and outputs

The TC proposes to support the strengthening of the institutional capacity of up to 3 NDBs through the following activities:

1. Capacity-Building for NDBs: This component seeks to build the institutional capacity of NDB staff to develop, deploy and manage financing strategies for EE and RE. The showcasing of specific experiences in structuring financial strategies and instruments would be developed and shared with at least 3 national development banks in the Region. Workshops and training on specific mechanisms, opportunities and challenges will be organized in collaboration with ALIDE and other relevant partners.

2. Sector Analysis: For each beneficiary entity targeted, their existing investment portfolio will be screened, providing initial sectors and clients who could benefit from the program. Then, a market study will identify major stakeholders, criteria for prioritizing target sectors (electricity consumption, fuel use, energy savings opportunities) and readiness for adopting new products. Then, a **pre-feasibility study** will be developed from the sector analysis, taking into account NDB strategic development plans and national priorities. It will include assessments and sector analyses of which technologies will be appropriate for individual markets. Workshops with key stakeholders will refine and validate the key findings of the pre-feasibility study, resulting in recommendations and proposals for the development of a specific financing strategy.

3. Design of the financing strategy: The project will provide technical cooperation to NDBs to design a financing strategy to improve the supply of and the demand for financing. Using the results of the sector analysis and the pre-feasibility study, financial and non-financial instruments will be developed. The application of proper criteria for selecting activities to be financed through the strategy's financial products and the concurrent monitoring of the impacts achieved is key to ensure that the strategy actually result in real environmental benefits.

4. Regional workshops: The experiences gained under this TC will be shared through the IDB's finanzascarbano.org platform and on other knowledge platforms, such as ALIDE's, to maximize replication in other countries in the region. It will also result in workshops at each of the 3 beneficiaries

targeted. This component will result in a series of knowledge products such as communities of practice, webinars, best practices documents, presentations and newsletters.

IV. Budget

Below is a cost estimate and sources of funds:

Component	Description	IDB/Fund Funding*	Counterpart Funding**	Total Funding
Component 1	Capacity-Building for NDBs	90,000	18,000	108,000
Component 2	Sector Analysis and pre-feasibility study	120,000	24,000	144,000
Component 3	Design of a green lending product	180,000	36,000	216,000
Component 4	Regional workshops	50,000	10,000	60,000
Monitoring and evaluation		20,000	-	20,000
Total		460,000	88,000	548,000

* The amounts correspond to support to 3 regional countries.

** Each NDB should provide in kind support equivalent to 20% of the support provided by the TC for each component.

V. Executing agency and execution structure:

Given the diversity of actors that this TC aims at supporting and its regional scope, it is appropriate for the IDB to directly execute it in order to provide a centralized coordination of the various studies and ensure their dissemination in the region. The Capital Markets and Financial Institutions Division (IFD / CMF) will have technical responsibility, coordination, direction and supervision of this TC, with support of the Energy Division (INE/ENE) of the Inter-American Development Bank, working closely with national governments. Moreover, the fact that the IDB will be the executing agency of this TC ensures independence and transparency regarding the elaboration of studies and assessments to be carried out within the activities of this CT.

VI. Project Risks and issues:

Given that the work proposed in this TC is highly technical, there is a risk of not obtaining good quality results if the work carried out by consultants is not properly monitored. The TC will ensure that the materials developed and technical backstopping are peer reviewed. Ensuring close technical follow up and quality control of the support provided is also one of the reasons why the TC should be executed by IDB (IDF/CMF) with methodological support from KNL.

This TC requires also a strong ownership of the beneficiaries. It is expected that the counterparts will dedicate the appropriate staff and the necessary resources for its implementation. CMF will ensure that beneficiaries agree on those conditions to receive support from this initiative.

VII. Environmental and Social Classification:

Based on the Environmental and Social Safeguard Filter, the proposed technical assistance has been classified as category C (see IDB docs #38331935 and 38331950).